

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 2948 - SB 3577**

March 1, 2010

**SUMMARY OF BILL:** Authorizes local governments to hold a referendum during a regular election relative to the sale of wine at retail food stores. Creates an additional class of license allowing the sale of wine at retail food stores.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue – \$614,400/One-Time/ABC Fund**

**\$1,740,800/Recurring/ABC Fund**

**\$8,775,100/Recurring/General Fund**

**Increase State Expenditures – \$383,000/One-Time/ABC Fund**

**\$1,013,200/Recurring/ABC Fund**

**Increase Local Revenues - \$2,069,100/Recurring**

**Exceeds \$4,950,000/Recurring/Permissive**

**Assumptions:**

- The licenses shall be issued by the Alcoholic Beverage Commission (ABC) and only to qualified food stores in jurisdictions where the sale of wine in qualifying stores has been approved.
- There are approximately 7,000 qualifying food stores in the state of Tennessee. Approximately 52 percent of these are in localities that have authorized the sale of alcoholic beverages. Approximately 75 percent of non-dry jurisdictions will approve the sale of wine in qualifying food stores and 75 percent of stores in these localities will apply for the license resulting in 2,048 stores statewide authorized to sell wine ( $7,000 \times 52\% \times 75\% \times 75\% = 2,048$ ).
- Each license costs \$850 with a \$300 one-time application fee. This will result in a recurring increase in state revenue to the ABC Fund of \$1,740,800 ( $2,048 \times \$850$ ) and a one-time increase in state revenue to the ABC Fund of \$614,400 ( $2,048 \times \$300$ ).
- The ABC will need 15 additional agents to assist in regulating and investigating the new licensees; and eight new administrative staff positions to perform administrative functions necessary for issuing new licensees.
- The increase to recurring state expenditures for the 15 additional agent positions is estimated to be \$735,000 per year (\$435,600 salaries; \$224,400 benefits; and \$75,000

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other). The increase to one-time state expenditures associated with these positions is estimated to be \$375,000 (motor vehicles, cameras, weapons, vest, etc.).

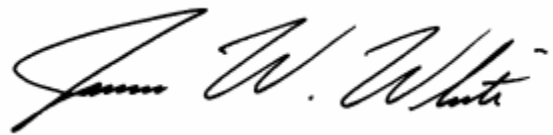
- The increase to recurring state expenditures for the eight additional administrative staff positions is estimated to be \$278,200 per year (\$158,400 salaries; \$81,600 benefits; and \$38,200 other). The increase to one-time state expenditures associated with these positions is estimated to be \$8,000 (computers, software, etc.).
- The excise tax on wine, state sales tax, local sales tax, the enforcement tax on the sale of alcoholic beverages, and municipal inspection fees will increase as a result of this bill. The extent of any such increases are dependent upon multiple unknown factors such as the number of gallons of wine sold, the average statewide price for a bottle of wine, per capita rates of consumption, etc.
- Given the extent of unknown variables, determining the extent of any increased revenue is difficult. However, the increase of revenue resulting from this bill is reasonably estimated to be amounts equivalent to 33 percent growth over current-year revenue estimates. The 33 percent estimate is based on per capita wine consumption rates in North Carolina, a state in relative proximity to Tennessee that allows the sale of wine in retail food stores.
- According to the Department of Revenue (DOR), collections of excise tax derived from the sale of wine are estimated to be approximately \$10,570,000 in FY09-10.
- The increase in state revenue from additional excise tax collections in jurisdictions approving the sale of wine in qualifying retail food stores is estimated to be \$2,616,100 ( $\$10,570,000 \times 75\% \times 33\% = \$2,616,075$ ).
- According to DOR, collections of state sales tax derived from the sale of wine are estimated to be \$25,700,000 in FY09-10.
- The state sales tax and local sales tax revenue figures are discounted by five percent to account for a reduction in the retail price of wine resulting from increased competition among retailers.
- The recurring increase in state sales tax revenue in jurisdictions approving the sale of wine in qualifying retail food stores is estimated to be \$6,042,700 ( $\$25,700,000 \times 75\% \times 33\% \times 95\% = \$6,042,713$ ).
- According to DOR, collections of local sales tax derived from the sale of wine are estimated to be \$8,800,000.
- The recurring increase to local sales tax revenue in jurisdictions approving the sale of wine in qualifying stores is estimated to be \$2,069,100 ( $\$8,800,000 \times 75\% \times 33\% \times 95\% = \$2,069,100$ ).
- Current law authorizes a \$0.15 per case enforcement tax upon the sale of alcoholic beverages sold at wholesale in Tennessee. FY09-10 collections attributable to wine sales are estimated to be approximately \$470,000.
- The recurring increase in state revenue associated with the enforcement tax is estimated to be \$116,300 per year ( $\$470,000 \times 75\% \times 33\% = \$116,325$ ). This amount is credited to the ABC Fund rather than the General Fund.
- Pursuant to Tenn. Code Ann. § 57-3-501, local governments are authorized to charge a permissive municipal inspection fee of a variable percentage (based on population) of the wholesale price of alcoholic beverages supplied by wholesalers. This fee is paid by licensed retailers within the municipality. Based upon a survey of local governments conducted by Fiscal Review Committee staff (responses from 82 out of 90 local

governments that authorize the sale of alcoholic beverages), an amount estimated to exceed \$20,000,000 is collected by municipalities statewide each year.

- The increase to municipal inspection fee revenue is estimated to exceed \$4,950,000 ( $\$20,000,000 \times 75\% \times 33\% = \$4,950,000$ ).
- Any increase in state or local sales tax collections due to the expanded list of items authorized to be sold in liquor stores is estimated to be not significant.
- Public Acts 2009, Public Chapter 348 authorized a wine manufacturer or supplier licensed in Tennessee or in any other state to ship up to nine liters of wine per month and up to 27 liters per year directly to Tennessee residents. Enactment of this legislation is anticipated to divert some wine sales from liquor stores and retail food stores. If Public Chapter 348 not been enacted, the estimated increase in sales from passage of this bill would have been greater.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

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